

October 6, 2003

Board of Trustees
Township of Macomb
19925 23 Mile Road
Mount Clemens, MI 48044

Dear Board of Trustees:

We have recently completed our audit of the financial statements of Macomb Township for the year ended June 30, 2003. As a result of the audit, we offer the following comments and recommendations for your consideration:

GASB 34 – New Reporting Model

As mentioned in previous years, the Governmental Accounting Standards Board (GASB) has issued a new financial reporting model for governmental entities. This new reporting model was designed to provide improved comparability between governmental entities and a more balanced prospective between current and long-term financial resources. Tom Allen, Chairman of the GASB stated, "This is the most significant change to occur in the history of governmental financial reporting."

To comply with the provisions of this new reporting model, certain long-term capital assets not previously accounted for by communities are required to be inventoried, valued and depreciated. This information is used in the preparation of several new financial statements reflecting a community's "net assets." Other notable changes include significant revision of most financial statement disclosures and a new summary letter referred to as "Management's Discussion and Analysis."

Since the release of this new model four years ago, all communities have struggled with preparing a plan for its implementation. Although the GASB clearly indicated what information was required, they were less specific on how best to obtain it. In addition, many other aspects of the pronouncement required further guidance or elaboration.

We wish to congratulate the Township Board of Trustees and the Finance Department for having successfully accomplished this challenging task.

Special Census

As the Township's population continues to grow at a record pace, the Township should consider a mid-decade census. If the Township's population has increased by at least 15 percent over the 2000 Census, the community would be entitled to additional state shared revenues. However, the State Legislature must make an annual appropriation for this payment to occur. We recommend that Township leadership discuss the probability of such a legislative appropriation with its State representatives and, if likely, consider undertaking a special census count.

ACH Arrangements

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

The Township Trustees should consider adopting a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for approving payment, accounting, reporting and complying with the ACH policy.
- A statement that this individual is required to submit documentation as follows:
 - Describe the goods or services purchased
 - The cost
 - Date of payment
 - The department benefiting from the purchase
- A system of internal controls to monitor the use of ACH transactions
- The approval of ACH invoices before payment

Arbitrage

Arbitrage is the concept of earning a profit by purchasing a security and subsequently selling it at a higher price. More specific to the municipal environment, arbitrage is earned when a bond is sold by a municipality, with interest payable at a set interest rate, and the proceeds are reinvested in investments earning higher yields. While this is not illegal, under the IRS regulations, this could result in a loss of the tax-exempt status to the bondholders. For bonds issued after August 31, 1986, the Tax Reform Act of 1986 both: a) tightened up the definition of arbitrage; and b) provided that the municipality could rebate the arbitrage earnings to the federal government, thereby retaining the tax-exempt status of the bonds.

In connection with the 1998 Revenue Bond, the Township elected to calculate potential arbitrage under the milestone method. This method protects the Township from payment of arbitrage providing bond proceeds are spent within specified periods of time. It has come to our attention that as a result of adjustments in the Township's development schedule, the required semi-annual milestones were not met. Therefore, the Township will have to calculate and remit to the IRS an arbitrage payment five years after the original issue date of the 1998 Revenue Bond. We encourage the Township to follow up on this matter with their legal counsel and to monitor current and future bond issues for potential arbitrage.

Revenue Sharing

The Township has and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately 43% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ended September 30, 2002, and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget, there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

The budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

We will continue to update the Township as developments occur.

New Homestead Audit Program

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

Segregation of Duties – Building Authority Bank Reconciliations

In planning and performing our audit of the Township's financial statements each year, we consider the Township's internal control structure in order to determine our audit procedures for the purposes of expressing our opinion on the financial statements. The consideration we give to the internal control structure is not sufficient for us to provide any form of assurance. However, as we have reported to you in the past, our review of the Township's internal control structure and operation leads us to an assessment that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. With the recent change in the

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Township's financial management staff, we believe that this may be an appropriate time to bring this to your attention again.

Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the Township's management assertions inherent in the financial statements. We consider the following deficiencies in the design and operation of the internal control structure to be a reportable condition. One employee has the ability to record, process, and manage cash in the building authority. This same individual performs the monthly bank reconciliation. We understand that due to the size of the Township's accounting department, it is difficult to adequately segregate duties. However, we believe that it would strengthen internal control if an additional person could be brought into the bank reconciliation process. One method would be to identify someone independent of the cash collection, recording, and processing functions for the building authority to perform the monthly bank reconciliation. Alternatively, such an individual could be asked to review the monthly bank reconciliations (and initial them to document the review).

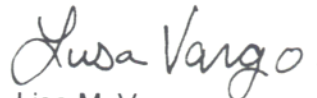
We thank the Board for the opportunity to serve as auditors for the Township. We also express our appreciation to the Township's personnel for the courtesy and cooperation extended to us during the course of the engagement. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Mark R. Hurst



Lisa M. Vargo